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Community Institutional Partnership for Affordable Housing

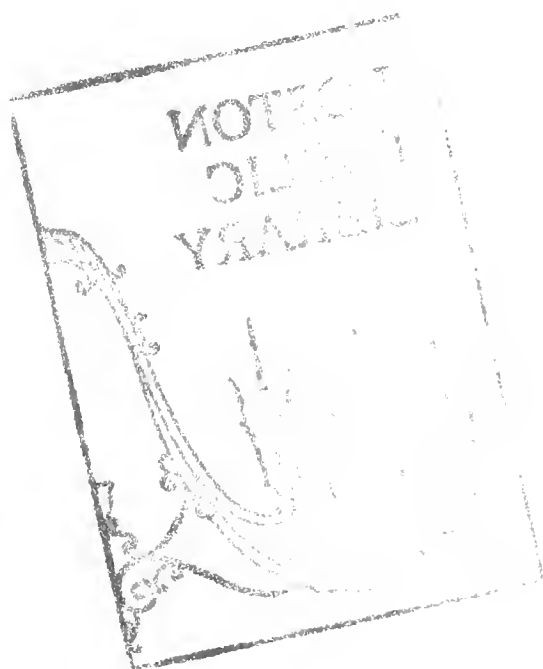
A Proposal to the Massachusetts Housing Partnership  
Challenge Grant Program

Fenway Community Development Corporation

Medical Area Service Corporation

March 15, 1988





## FCDC/MASCO CHALLENGE GRANT APPLICATION

### 1. Project Description - Community Institutional Partnership For Affordable Housing.

The project is designed to create a partnership between the Fenway Community Development Corporation, the Medical Area Service Corporation (MASCO), and one or more major non-profit institutions in the Longwood Medical Area to preserve existing affordable housing for low, moderate, and middle income residents. The project would include a joint development project, with a model partnership agreement, a report documenting the relationship of affordable housing in adjacent neighborhoods to the continued prosperity of medical and educational institutions, and a symposium/workshop to discuss the findings of the report and the results of the Fenway CDC, MASCO, and the institutions' efforts to establish a partnership on specific development, and the potential for creating similar partnerships in other areas.

In addition, while the primary emphasis of the project is on affordable housing preservation, the use of below-market permanent financing opens new possibilities for housing production. Specifically, we propose to investigate whether permanent financing at rates comparable to tax exempt MHFA financing would enable developers of new housing to use 9% low income housing tax credits, maximizing equity available to new affordable housing developments.

The project will seek to create a partnership where the Fenway CDC becomes the ownership entity of the housing with a permanent mortgage from a non-profit institution at rates significantly below market interest. The below market interest rates will play a major role in making the project affordable. The institutions will also receive a commitment of a certain percentage of units from the project for their employees.

### 2. Innovation

The project is an innovative response to problems faced by both the Fenway community and the large non-profit institutions that surround the community. The neighborhood has seen 25% of the existing housing converted to condominiums between 1980 and 1986. The housing stock of the neighborhood is almost exclusively multifamily buildings of more than twenty units. Most of the condo conversions have resulted in buildings with an unstable mix of undergraduate students crowded in small apartments that are owned by investor condo speculators. The remaining longer term residents are faced with continuing problems in getting maintenance done and are being priced out of the local housing market.

The housing stock is generally in good condition and the asking prices for the multi-family buildings that have come on the market within the past year have been based on the condo conversion potential. Without subsidy from some source these buildings will not remain rental buildings for very long, despite the current lull in the condo market.

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Until very recently, most city and state programs have not addressed the issue of preserving existing affordable housing, particularly in the private market. This project would tap a new source of non-bank, non-government mortgage money to address a problem that has not yet been seriously addressed by state or local government.

Preliminary discussion indicates that some of the institutions have substantial funds for investment. They also are facing serious problems in finding housing for their employees, and this has been reported to be a recruiting obstacle (though no data has been compiled on the issue). The endowments of some of the institutions are structured to meet different return objectives than banks and offer the possibility of significant discounts from market mortgage rates without compromising the return objectives of the institutions.

However, the institutions must develop their own rationale for committing large sums to a non-traditional investment. MASCO will take the lead in this aspect of the project, working with its member institutions to assess the housing needs of employees and the community relations benefits of the partnership and determine the appropriate level of institutional involvement.

There are new programs which make the availability of below market financing even more important. The Rental Housing Development Action Loan Program (RHDAL) will, for the first time, market SHARP type interest subsidies available for the preservation of affordable housing. In addition, the City of Boston's linkage program is seeking viable housing preservation projects. By itself, the RHDAL program would not give us the flexibility to provide internally subsidized below market units, but in combination with a below market mortgage from an institution, we can achieve a mixed income project that will be approximately 65% below market.

The below market mortgage from a non-government source is also an innovation that could make possible the use of the higher 9% low income housing tax credit that is available to projects with taxable financing. The 9% tax credit has not been attractive to non-profit developers because it requires the use of taxable financing which has traditionally been market rate. The interest rate differential results in the total combined sources of debt and equity being less under the taxable financing with a 9% tax credit scenario than under the tax exempt financing with a 4% tax credit scenario. Identifying financing mechanisms that do not pose the interest rate trade-off represents an important innovation in housing finance in the current context and enables the state to allocate limited tax-exempt financing dollars more effectively.

### 3. Replicability

The Commonwealth of Massachusetts has a large number of renowned educational and medical institutions that are a linchpin of the economic growth of the state. Many of them are in urban neighborhoods that are heavily impacted by the rapid increase in rents and condominium conversions. Our proposal would provide a model for institutional partnerships.



With respect to the tax credit, many other types of lenders can be approached for below-market financing on this model. In fact, non-profit lenders more committed to housing production than preservation, may find this aspect of the investigation of greater relevance. Types of institutions that can be appealed to for financing for housing production include union pension funds, national foundations, and even private for-profit firms.

We will disseminate the results of our project by sponsoring a major symposium with participation of medical and educational institutions, community organizations and non-profit developers. MASCO will take the lead in organizing the symposium and their efforts will help to insure serious participation from a broad range of medical and educational institutions. The symposium would be designed to facilitate the sharing of information, and the involvement of these institutions in programs and projects that foster the maintenance and creation of affordable housing.

#### 4. Affordability

The attached pro forma is based on a possible acquisition project that could provide the first concrete partnership. We envision a project that would be at least 25% low income, approximately 20% moderate income (50 to 80% of median income), and 20% middle income (80 to 120% of median income) and 35% market rate. Our goal is to achieve that income mix over a period of years so that no displacement of current tenants occurs. Some of the buildings that could be acquired for development by the partnership are currently substantially occupied for the most part by undergraduate students and will turn over rapidly. This will allow us to achieve the desire income mix of longer term residents more quickly than the attached pro forma suggests. The goal of the project is to meet the housing needs of the neighborhood and those of low, moderate, and middle income employees of the institutions.

#### 5. Breadth of Participation

The project represents a cooperative effort between two institutions with very different constituencies. MASCO is a consortium of some of the largest and most renowned medical institutions in the nation. MASCO was created to develop and deliver services that assist the Longwood Medical Area institutions in achieving their goals. These institutions include Brigham and Women's Hospital, Beth Israel Hospital, and Children's Hospital.

The Fenway Community Development Corporation is a community based non-profit housing developer whose constituency is the working people, the elderly, and low income residents of a diverse neighborhood.

Both MASCO and the Fenway CDC will be working to involve their constituencies in this community-institutional partnership. MASCO will continue its work with member institutions. The Fenway CDC will continue its efforts to involve community leaders in a discussion of the advantages of a community-institutional partnership as well. The Fenway CDC expects to be meeting with representatives of the Fenway Civic Association, the Audubon Circle Neighborhood Association, Symphony Tenant Organizing Project, as well as consulting with organizations in the adjacent neighborhood of Mission Hill. The City of Boston's Public Facilities Department has already been involved in discussion on the project and is supportive.





## 6. Leverage

The project can provide major assistance in leveraging a below market mortgage of several million dollars. The attached pro forma represents a real acquisition opportunity which would mean a \$8.5 million below market mortgage from one or more medical area institutions.

This project, if successful, could lead to further commitments of a similar scale. In addition, Massachusetts Housing Partnership (MHP) support for this project would provide a match and indication of state support which can leverage additional project operating support from Structured Employment/Economic Development Corporation Urban Institutions Projects (SEEDCO). SEEDCO can provide approximately \$500,000 in below market financing from the Ford Foundation's Program Related Investment Fund.

Finally, the investigation of low income tax credits with below market financing is intended to leverage additional sources of funding for housing production.

## 7. Insight

There has been much discussion by economists, business leaders, and public officials about the impact of housing costs on the economic boom in Massachusetts. Non-profit institutions are an important piece of the economic miracle and a recent study by the Boston Redevelopment Authority found that 12.1% of all jobs in Boston were in health services.

This project will both examine the problem housing costs pose for a significant group of employers and also begin to address that problem concretely. It will address the housing needs of the institutions with a strategy that is sensitive to the institutions' role in the community.

The development of housing opportunities close to the workplace can also begin to ameliorate traffic problems. Transportation issues are frequently cited as a barrier to economic growth and are a source of tension between residential communities and their neighboring institutions.

We will not only look at a specific set of employers and a specific community, but also disseminate our results to a broader audience of community organizations and institutions. A successful partnership using below market financing from a non-bank, non-government source can begin a process of institutionalizing alternative permanent financing mechanisms and help to create new types of public and private partnership.

## 8. Product

We expect the project will produce a partnership with at least one major institution and the FCDC to acquire an existing apartment building and preserve it as affordable housing. We will develop a model partnership agreement between one or more major institutions and the FCDC.

We will produce a report documenting the housing problems faced by both the employees of the non-profit institutions in the Longwood Medical Area and the institutions themselves. The report and the joint development project will form the centerpiece of a symposium/workshop that will involve both institutions and community organizations.



Legal memorandum will be developed that address such issues as how financing provided by tax-exempt institutions will be characterized in the context of tax credits and how MHFA can serve as an underwriter/servicer using such financing in order to continue to make SHARP loans available to such projects.

9. Sponsor Background

The Fenway Community Development Corporation is a community controlled non-profit development organization dedicated to the preservation and improvement of the Fenway. The FCDC has developed sixty-six units of mixed income rental housing and is preparing to start construction on 107 units in two projects at one site.

MASCO is a Massachusetts Charitable Trust that acts as a shared service organization for fifteen institutions located in the Longwood Medical Area of Boston. MASCO's goal is both to improve the accessibility of the Longwood Medical Area for staff, students, patients and visitors and to increase effectiveness and reduce costs for its member institutions.

10. Implementation And Administration

Primary staff for the project will be Bob Van Meter for the Fenway CDC and David Eppstein for MASCO.

MASCO will be responsible for development of the report and have major responsibility for organizing the symposium. In addition, MASCO will serve as a liason between the Fenway CDC and institutions. If a joint development project involves more than one institution as a lender, MASCO will be responsible for structuring the relationship between the institutional lenders.

The Fenway CDC will have the major responsibility for seeking out development projects, and will be the developer on any joint project. The Fenway CDC will take the lead in exploring the financing options and in involving other community organizations in the partnership discussion.

The project will be supervised by Mathew Thall, Executive Director of the Fenway CDC, and the FCDC and MASCO will jointly evaluate the project.

11. Progress To Date

MASCO and FCDC have met with key staff at Children's Hospital, Brigham and Women's Hospital, and the Beth Israel Hospital about both the partnership concept and the possibility of participation in the specific project outlined in the attached pro forma. All three institutions have indicated interest in both the concept and the specific proposal.

In addition, FCDC and MASCO have met with the staff from SEEDCO about the project; SEEDCO has asked for a formal proposal.

12. Next Steps

Our next steps if we are awarded a challenge grant will be to begin serious discussions with three major medical institutions about the level of commitment that each is prepared to make and the structure of a housing set-aside for their employees in the project.



We will also contract with a consultant to begin work on the report outlined above and retain an attorney to examine the tax credit issue.

13. Other Sources Of Funding

The project is an outgrowth and expansion of work the Fenway CDC undertook to preserve existing affordable housing. That project was funded by a CSBG Special Projects grant and the staff involved in this project's development were hired for that project. As part of that effort the FCDC began to explore alternative sources of financing for preservation and initiated discussions with MASCO. MASCO is contributing David Eppstein's time to the project and will continue to do so.

The FCDC is applying for funding to SEEDCO to support additional project costs. SEEDCO requires that we match their contribution. We believe the innovative project packaging and financing proposed, more closely fit the goals of MHP's Challenge Grant Program than Special Projects Program or any other state program.

14. The Budget

FCDC Project Staff Salary	\$27,000
Fringes 15%	4,050
Legal	2,500
Consulting Fees	
(400 hours at \$30/hr.)	12,000
Printing	1,500
Space Rental (symposium)	1,200
Refreshments (symposium)	500
Postage	250
Total	<u>\$49,000</u>

15. Unique Qualifications For Challenge Grant

This project makes a serious effort to address the needs of both a residential neighborhood and an important group of area institutions by exploring an innovative method of preserving existing housing as affordable housing. It brings together partners which have not often worked together and explores a new kind of financing for affordable housing.

16. Need For Affordable Housing In The State

The need for affordable housing of many different kinds has been well documented. Home prices both for single-family homes and condominiums have skyrocketed and despite a recent softening of the market, are above levels of affordability for moderate and middle income households.

Rental units have been lost as condo conversion has taken more than 25,000 units in Boston and more than 25% of the units in the Fenway area. Condo units which are rented out are much more expensive than prior to conversion.

Our proposal addresses the need for preserving existing affordable housing. Without preservation, new construction of affordable housing will not keep up with the need for affordable housing.



MHP CHALLENGE GRANT PROGRAM  
APPLICATION COVER SHEET

Instructions: Fill out this form completely and submit it as a summary of your proposal.

APPLICANT: Fenway Community Development Corporation/Medical Area Service Corporation

LEAD AGENCY/CONTACT PERSON:

Name: Bob Van Meter/Fenway CDC  
Address: 58 Burbank St.  
Boston, Ma. 02115

Title: Speculation Intervention Project Director  
Telephone: (617) 267-4637

Indicate if minority or women owned business enterprise: no  
SOMBA-certified: Yes      No x

CHALLENGE GRANT CATEGORY (check one)

     Physical Design  
     Land Use Management  
x Finance  
x Project Packaging  
x Communication & Training  
x Multi-Category

SUMMARY OF PROPOSAL: Community Institutional Partnership for Affordable Housing  
This project will create a partnership between the FCDC, MASCO, and one or more  
major institutions in the Longwood Medical Area to preserve existing affordable  
housing. The institutions will provide a below market mortgage to acquire  
existing affordable housing and will receive a commitment for a specific  
number of units in the project. This proposal addresses both the need of the  
neighborhood to preserve existing affordable units that would otherwise be  
converted to condominiums and the need of major non-profit institutions to  
provide affordable housing options for their employees. The goal is to create  
a model partnership on at least one specific development during the project and  
to prepare a report on the housing needs of the institutions.  
BRIEF DESCRIPTION OF PRODUCT RESULTING FROM GRANT: The products resulting  
from the grant will include a model partnership agreement, a joint development  
of the FCDC and an institution, a report documenting the housing problems facing  
the institutions and how housing impacts their ability to carry out their goals,  
and a major symposium/workshop where other community organizations, non-profit  
developers and medical and educational institutions will be invited to share  
the insights gained from the project. We also will prepare a legal memorandum  
on the use of 9% low income housing tax credits with below market financing.  
AMOUNT REQUESTED: \$49,000

SCHEDULE FOR PROPOSED PROJECT:

Project Commencement Date: July 1988  
Project Completion Date: July 1989

Robert Van Meter  
Signature of contact person

Fenway Community Development Corporation  
Organization Represented

Robert VanMeter Speculation Intervention Project Director  
Typed Name and title

